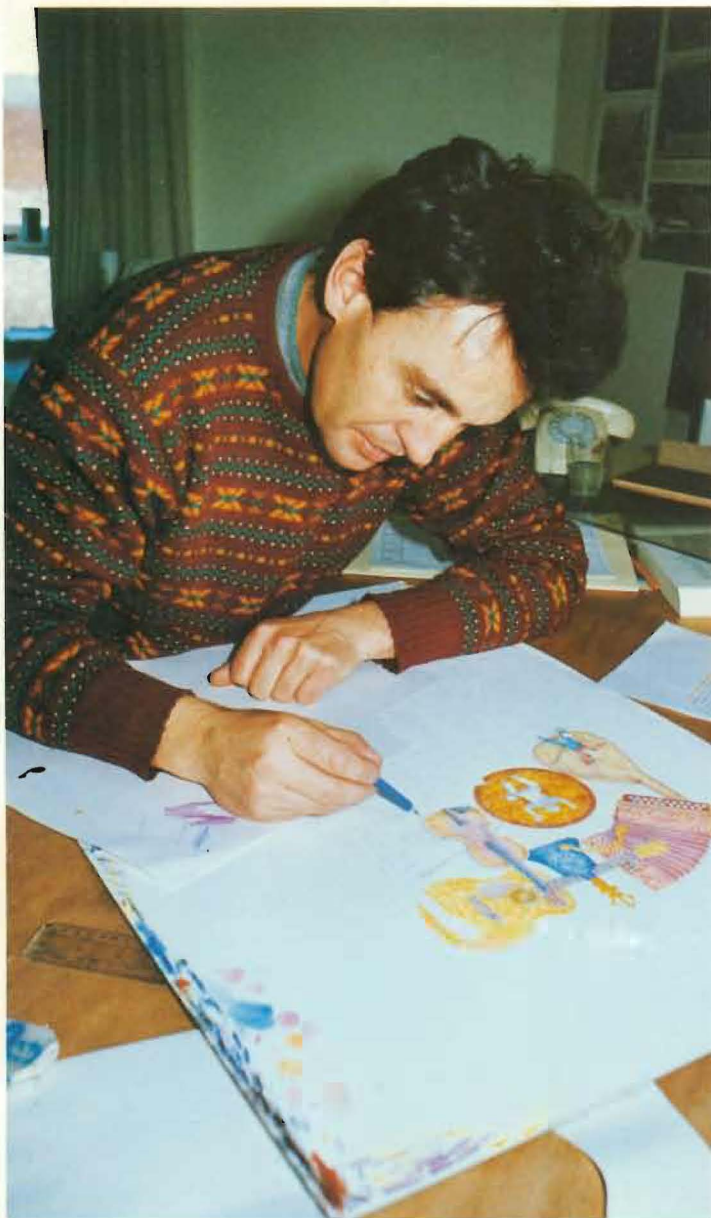


# Workplace democracy The co-operative way



MINISTRY OF EMPLOYMENT AND TRAINING  
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# Workplace democracy: The co-operative way

The Co-operative Development Program was established because of the potential of co-operatives to maintain and/or create jobs and democratise workplaces through worker ownership and control of business enterprises: workplace democracy – the co-operative way.

A co-operative is a formal, legally established association of individuals, usually of limited means, who have voluntarily joined together to achieve common economic ends through the formation of democratically owned and controlled business enterprises. In Victoria co-operatives are incorporated under the Co-operation Act 1981.

All co-operatives are legal entities and even the worker co-operatives are the legal employers of their own worker members. Co-operatives are governed by common law, specific legislation and regulations which cover the way they operate as a business and the way they produce, sell and advertise goods or services. All co-operatives must observe award wages and working conditions. Workers have a legal right to join trade unions and it is illegal to prevent workers from joining unions.

There are three major types of co-operatives:

**Worker Co-operatives:** the members are the workers who join together to conduct a business and create and maintain their own employment. The workers are collective entrepreneurs who may or may not appoint managers. If there are managers they are accountable to the workers.

**Consumer Co-operatives:** the members are individuals who join together to provide common goods or services. If the co-operative has employees they usually work in an employee relationship to management. There may be a strong emphasis on member decision-making and participation. Workers may be encouraged to become members and participate in decision-making. The provision of continued service/benefit to members is central.

**Marketing/Producer Co-operatives:** the members are self-employed individuals/businesses, providing similar products/services, joining together to collectively buy and/or sell goods and services. These co-operatives tend to operate on traditional business and management principles and practices.

**Conversion co-operatives** are existing business enterprises (sole trader, partnership, company) which convert into co-operatives – usually a worker co-operative.



# Co-operation – the six fundamental principles

There are six fundamental principles of co-operation:

## 1. Open and voluntary membership

Membership of a co-operative should be voluntary, and available without artificial restriction, or any social, political or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities.

## 2. Democratic control

Co-operatives are democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary co-operatives should enjoy rights of voting (one member, one vote) and participation in decisions affecting their co-operatives. In other than primary co-operatives the administration should be conducted on a democratic basis in a suitable form.

## 3. Limited interest on shares

Share capital being service capital should only receive a strictly limited rate of interest, if any.

## 4. Return of surplus to members

Surplus or savings, if any, arising out of the operations of a co-operative belong to the members of that co-operative and should be distributed in such manner as would avoid one member gaining at the expense of others.

This may be done by decision of the members as follows:

- a) by provision for development of the business of the co-operative;
- b) by provision of common services; or
- c) by distribution among the members in proportion to transactions with the co-operative.

## 5. Co-operative education

All co-operatives should make provision for the education of their members, officers and employees and of the general public in the principles and techniques of co-operation, both economic and democratic.

## 6. Co-operation among co-operatives

All co-operative organisations, in order to best serve the interest of their communities, should actively co-operate in every practical way with other co-operatives at local, national and international levels.

Consistent with these principles, co-operatives have the following distinguishing characteristics – constant value and one class of shares, a limited interest on shares, a 20% limit or less on the number of shares held by any one shareholder, one vote per member irrespective of the number of shares held, individual membership and shares cannot be publicly traded. The structure of a co-operative makes it a democratic form of business enterprise.

In contrast, a company is not democratic. The ownership and control of companies is wealth-based – the number of shares determines the number of votes, there is no limit on the proportion of shares held by individuals, control is by a majority of shares and the shares are publicly traded and sold. Co-operatives should not be confused with employee-owned companies. An employee-owned company is not democratic. It is structured like any other company except that the shareholding is internal (workforce) rather than external.

The virtue of companies lies in their relative simplicity – generating and maintaining a profit. Co-operative enterprises are far more complex than companies because they have other objectives as well as profitability. Co-operatives have the higher objective of servicing the needs of their members and practising the principles of co-operation and democracy. The ability to practise these non-commercial objectives is dependent on an understanding of the philosophical and practical importance of both commercial and non-commercial objectives. The existence of both sets of objectives does, of course, introduce uncertainty into decision-making.



# Industrial democracy

Industrial democracy is a form of government of business enterprises involving workers (the governed). There are two broad forms of industrial democracy:

- Worker participation – worker representatives are involved in management decision-making but the ultimate power remains with management/owners.
- Workers' control – workers own, manage and control their own enterprises. While decision-making is shared and delegated the ultimate power lies with the workforce.

For industrial democracy to work there needs to be a commitment to making it work in practice. Even in a worker co-operative, in which the workers are the members, it is not easy to develop and implement an industrial democracy practice. Democracy is not automatic because workers own and control a co-operative. There are two critical and inter-related issues which need to be addressed if democratic decision-making is to become a reality – the rights of workers and the management function.



\*Bootstrap Trading

The rights of workers need to be protected and developed in co-operatives. Unless these rights are maintained and developed, then, the realisation of democratic practices will be delayed. There is a direct relationship between quantitative (wages and working conditions) and qualitative needs (decision-making).

Unions are in the best position to assist co-operatives to protect and develop the rights of workers. Membership of unions offers practical advantages for workers and co-operatives. The historical origins and democratic aspirations of co-operatives and trade unions are similar. By joining unions workers in co-operatives can utilise the industry experience and skills of the unions. Workers in co-operatives are still employees even if they are also employers. Injustices can and do occur



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in democratic organisations. Co-operatives should also be careful not to unwittingly jeopardise the wages and conditions of workers in traditional employment. By being unionised the co-operatives could prevent this possibility.

The essential difference between the management function in a co-operative and a company is the accountability of management. There is a management function in all co-operatives whether or not they are committed to industrial democracy principles and practices. Because a co-operative is organised on the basis of an industrial democracy practice, this does not mean that there is no need for management. But, then, this does not mean that managers are inevitable or that managers necessarily operate as they do in other forms of business. In small co-operatives the exercise of democracy is relatively easy and there is no need to appoint a manager.

When a co-operative is a certain size, however, the management function becomes more complex and there is a need to appoint a manager. In a worker co-operative the workforce would delegate day-to-day decision-making to a management they appoint. The workforce, then, acts under the day-to-day direction of management. But, the management is responsible to the workers – to account for the exercise of delegated authority. The management advises the workforce on policy and it is the responsibility of the workforce to accept or reject that advice.

Whatever the nature of management in a co-operative, it is necessary to ensure that it is accountable and that the members/workers are able to distinguish between effective and ineffective management. Reliance on managers and 'imported' expertise can reduce the internal democracy of co-operatives and it is important, therefore, to both decrease the need for managers and experts and ensure their accountability. It is necessary to know what information is necessary to participate effectively in decision-making and to evaluate the performance of managements and experts. But, then, effectively using information is equally dependent on the ability to understand and interpret information. This ability to understand and interpret may be developed through training and practice.



# Enterprise plan

The basis of a co-operative's economic viability is an Enterprise Plan. An Enterprise Plan is a written document that describes the goals and objectives of the co-operative and lists the steps that will be taken to achieve those goals and objectives.

The process of developing the Enterprise Plan should be democratic – a process through which all the participants are involved and through which they reach an understanding and consensus on the co-operative's goals, objectives and strategies.

The Enterprise Plan will include the co-operative's goals and objectives. It will provide and explain the organisational structure and management and how this reflects and reinforces the co-operative's commitment to an industrial democracy philosophy and practice. It will also detail the co-operative's participants – providing background information concerning their experiences and skills. The Plan will then discuss the proposed product and/or service – based on a feasibility study and a marketing strategy. The Enterprise Plan will also include an industrial relations policy which will address relationship with and membership of trade unions, equal employment opportunity and occupational health and safety. An education and training plan will also be included. Finally, there will be financial projections over a two year period – cash flow, profit and loss and balance sheets. The Enterprise Plan will integrate the co-operative, democratic and business characteristics.



The primary uses of an Enterprise Plan are:

A financing tool: A good Enterprise Plan should provide more information that what is required by a funding/lending authority. It is the basic planning document of the co-operative.

A blueprint: An Enterprise Plan serves as a blueprint for starting, operating and expanding co-operatives. Just as a builder draws up plans before starting construction of a house, persons starting a co-operative should plan their operations prior to implementation.

The benefits of an Enterprise Plan for co-operatives are that it:

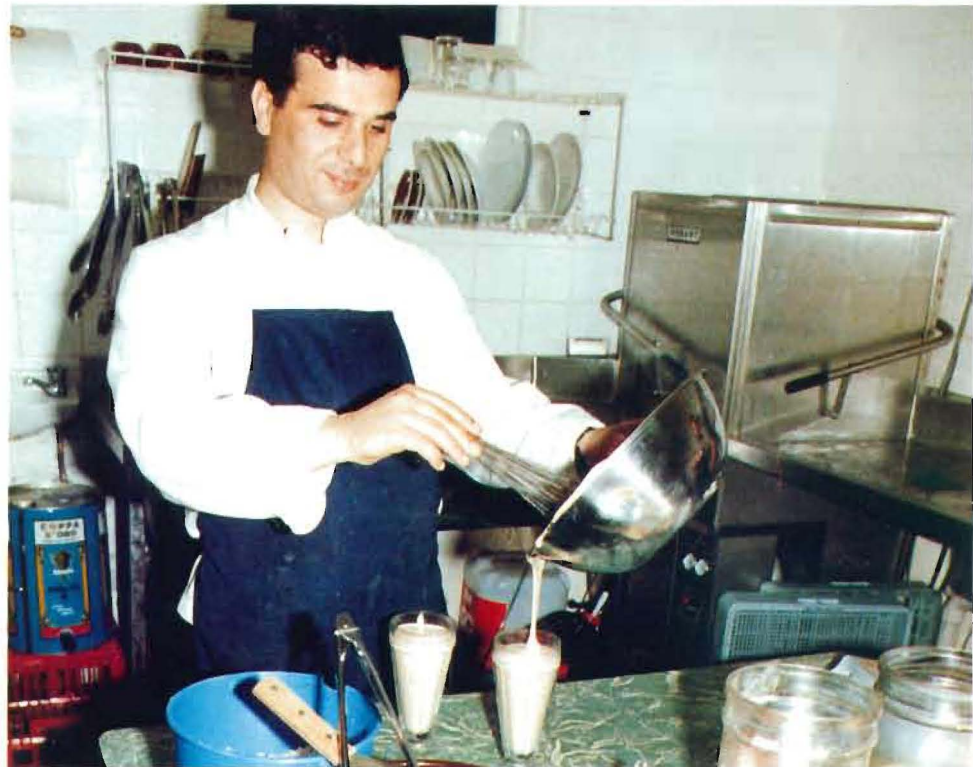
Reduces firefighting. Many new co-operatives spend so much time "putting out the fires" that they never have a chance to do anything else. By preparing an Enterprise Plan, they can anticipate problems that are likely to occur and decide how they should be handled.

Forces co-operatives to justify their plans and actions. Often, they decide to do something because it "sounds" or "feels" right. Or, they may do something because that is the way that they have always done it. Preparing an Enterprise Plan forces them to prove the validity or at least explain the reasoning of the plans.

Enables people intending to start a co-operative to test their ideas on paper. It is much better to prepare an Enterprise Plan and find that the business is likely to be non-viable than to start the business and find out the same thing.

Indicates the group's ability and commitment. A well-prepared Enterprise Plan is an impressive document. It shows outsiders that the workers/members understand the business. The fact that they have spent the time to prepare it shows that they have a commitment to the business.

While an Enterprise Plan reduces the possibility of failure, success cannot be guaranteed. The Plan must be flexible enough to take into account and identify any changes in the business/market environment and allow development and change over the longer term. A new Enterprise Plan should be prepared every 12 months and the Plan should be reviewed at three or six-monthly intervals during the year.



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# Education and training

The knowledge and skill requirements of co-operative and other business enterprises are similar – the preparation and implementation of enterprise plans, entrepreneurialism, management and managing, establishing and maintaining records and systems, preparing and analysing financial statements, developing and implementing marketing strategies. There are also significant differences, however, between co-operatives and other business enterprises.

It is essential, therefore, that before a co-operative is established and operating that an education and training plan is prepared. This education and training plan must be incorporated within the co-operative's enterprise plan. The purpose of the education and training plan is to:

- (i) develop co-operative, democratic and business education and training objectives;
- (ii) identify the existing knowledge and skills of the co-operative's actual and/or proposed workers;
- (iii) identify the short and long-term knowledge and skill requirements of the co-operative;
- (iv) identify the match and mismatch between (ii) and (iii);
- (v) propose how the short and long-term education and training objectives and needs will be met.



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- (i) **Develop co-operative, democratic and business education and training objectives.**

The enterprise plan would have presented a series of economic, social and/or political objectives for the co-operative. The

education and training component of the plan should specify the education and training sub-objectives to ensure the co-operative's workers are able to implement the organisational and economic objectives. This is critically dependent on the development of decision-making skills.

**(ii) Identify the existing and potential short and long-term knowledge and skills of the co-operative's actual and/or proposed workers.**

Individually and/or collectively the co-operative's workers may not have all the necessary knowledge and skills required to implement the enterprise plan. It will be necessary, therefore, to identify these deficiencies which would include decision-making, co-operative and business knowledge and/or technical skills.

**(iii) Identify the short and long-term knowledge and skill requirements of the workers in respect to the effective operation of the co-operative.**

The enterprise plan will have addressed management and structure, business and marketing knowledge and strategy and financial projections. The education and training component, therefore, will have to identify the specific knowledge and skill requirements necessary to enhance co-operative and economic viability.

**(iv) Identify the match and mismatch between (ii) and (iii).**

Having identified the knowledge and skill requirements of the co-operative and the workers' skills, it will be possible to identify the knowledge and skill discrepancies.

**(v) Propose how the short and long-term education and training objectives and needs will be met.**

If the knowledge and/or skill mismatch is extensive and/or fundamental, then, clearly the proposed co-operative business is in jeopardy. If the mismatch is neither extensive nor fundamental, then, appropriate training could be arranged.



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Correct Line Graphics



# Economic viability

The success of a co-operative business is measured by its survival as an economically viable business and simultaneously meeting its non-commercial objectives – its ability to generate sufficient sales income to cover all costs including the payment of award or industry wages whichever is the higher, meeting safety standards, repaying loans and providing for future anticipated and unanticipated needs (e.g. replacement of capital equipment, increased raw material costs and research and development and co-operative expansion).

The factors influencing the success of a co-operative as a business enterprise are similar to those affecting all small business.

The common reasons for small business and co-operative failure include:

**Downgrading the need for experience:** While the need for experience can be over-rated, costly mistakes can be avoided by inexperienced co-operatives if they recognise the value of competent management and decision-making, developing skills within the co-operative and using outside experts appropriately.



**Sloppy record-keeping:** Without proper and accurate record-keeping, costly mistakes can occur, including the failure of the enterprise. Accurate and adequate records are necessary to help in the preparation of realistic tenders and job estimates, identifying loss and profit areas, obtaining adequate insurance cover, backing up claims for tax deductions, preparing business plans and the preparation of monthly cash flow and profit and loss statements and monthly balance sheets.

**Reckless money management:** It is critically important to use whatever money you have to maximum effect and this involves effectively managing the inflow and outflow of money by the use of a cash flow budget.



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If you are reckless you will buy unnecessary quantities of stock, give your debtors too much time to pay, pay your creditors too soon, not get petty cash claims and charge too little for the product or service. An adequate financial reporting system, including budgets, needs to be established so that the information required for business decisions is available.

**Failure to plan:** Planning is crucial to ensure the maximum effective usage of resources – particularly if these are limited. Planning involves determining objectives and methods for reaching these objectives. Unless you do this, you will be moving from one crisis to the next, which could lead to the eventual failure of the co-operative.

**Misuse of time:** With too much to do and too little time to do it in, it is essential to budget time. This means that priorities have to be identified and that the most is done with the time that you do have.

**Inattention to marketing:** It's not enough to produce goods and provide a service. Both have to be marketed. Poor marketing occurs when a service or product is provided but doesn't sell because an adequate market never existed, because you're competing against established and successful products and services, because the services or products you're offering are obsolete or unsaleable, because of inaccurate pricing and because of poor location. A comprehensive feasibility study is a critical prerequisite to assess the market viability of the product/service and to identify an appropriate marketing strategy.

**Management:** To implement industrial democracy the management of a co-operative has to be sophisticated and multi-skilled. Management decision-making is essential and co-operatives must develop structures and processes for making such decisions. Management could be shared and/or delegated.

Co-operatives, then, can fail for the same reasons as other forms of business. Co-operatives, however, can also fail for other specific reasons.



**Membership:** Membership must be based on co-operative philosophy and practice. Individuals who form or join a co-operative for dealing in produce or labour other than their own or of their own members are not acting consistently with co-operative principles. New members should be recruited carefully and the basis of a common bond (interest) established. There should not be non-member workers unless they are serving a probation period.

**Objectives:** The co-operative, business and democratic objectives must be clear, precise and related and there must be a consensus on these objectives. In the absence of a consensus, there is a problem that decision-making could become a conflict about objectives and priorities.

**Decision-making:** It is critical to establish who will make what decisions when and how – before and not after incorporation. Unless the decision-making process is clear then, inevitable power conflicts will emerge and specific individuals/groups will exercise a disproportionate influence. Decision-making can be both democratic and profitable.

**Lead-time:** There is a lead-time in establishing and developing every business into an economically viable operation. The adoption of a co-operative structure and a commitment to workplace democracy lengthens the period of economic viability. Democracy must be the basis rather than the product of viability.

**Democratisation:** It is difficult to organise and operate a business on the basis of democratic principles and practices. A rhetorical affirmation about worker control does not automatically create control in practice. It is necessary to develop a clear understanding of what constitutes democratic decision-making and the critical variable, e.g. common interest, consensus, management and technical experts. Democracy must not, however, become an excuse for not achieving viability.



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# Incorporation

A co-operative society may be formed by seven or more persons. Membership is open to any person who is not under the age of 15 years. However, membership may be limited to a specific bond as determined by the society's rules.

Members are required to apply for shares in the society, usually shares are fully paid, however a minimum of 10% of share value must be paid on application.



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To enable formation of a society, a meeting must be held at which the Rules and a Formation Statement are tabled and approved by those present.

At the meeting, eligible persons apply for membership, and Directors are elected.

After the meeting the Rules and Statement together with the Statutory formation papers must then be forwarded to the Registrar of Co-operative Societies within two months, for formal registration of the Society.

## The Formation Documents.

### The Rules

It is simply a matter of adopting Model Rules for the various types of co-operative societies. However, certain amendments, according to the needs of the individual society will be required to be made.

### The Formation Statement.

A statement in the nature of a "prospectus" is required to be submitted to the formation meeting. The statement sets out:

(a) the objects of the society;



- (b) the factors which will ensure that it will be co-operative in character and operation;
- (c) the reason for believing that, when registered, it will be able to carry out its objects successfully.

### **Statutory Formation Documents.**

Documents to be submitted to the Registrar with the Rules and Formation Statement are:

1. Form 8 – Application for registration of the society.
2. Form 9 – Being a statutory declaration by the chairman and secretary of the formation meeting as to compliance with section 53 of the Act, which relates to formation of societies.
3. Form 3 – A list containing the full name, occupation and address of each director, together with a statement of competency.
4. Form 10 – Particulars regarding each applicant for membership.

The Registrar advises that sponsors of the co-operative, seek the assistance of an officer of the Ministry in the preparation of the before-mentioned formation documents.

### **Control of Society.**

The control and management of a co-operative society is vested in the board of directors subject to the restrictions imposed by the Act, the Regulations and the society's rules.

A majority in general meeting cannot interfere in the board's administration or direct how the directors shall act in a certain matter. Under the current Co-operation Act the members' remedy is to record their views of the board's control at the next election of directors. The effect of the board's power on industrial and participatory democracy is under review.

The number of directors of a society must not be less than three nor more than seven. The quorum for meetings of directors must be not less than half their number.

### **Duties of Directors.**

The directors must accept responsibility for the conduct of the society's operations, and for the proper compliance by the society with requirements of the law.

The society must ensure the following:

- (a) appoint an auditor who is a registered companies auditor;
- (b) acquire a fidelity guarantee insurance policy for an amount of at least \$2,000. The policy will cover the officer handling the funds of the society, and must be approved by the Registrar; and
- (c) send all the required meeting notices to members.

### **Registered Office.**

The registered office of the society is stated in the rules and, after registration of the society Form 20 Application to Register Office of Society, is forwarded to the society in duplicate for execution and return to the Registrar. Any change of registered office must also be notified. Forms for this purpose may be obtained from the Ministry.

### **Investments.**

The Act places a restriction on where a society may invest its surplus cash, viz: authorised trustee investments, banks, building societies and other approved societies.

### **Offences and Penalties.**

Any contravention of, or failure to comply with, the requirements of the Act renders a society and the directors and officers responsible liable to penalties under the Act.

### **Winding Up of Society.**

A society may be wound up in substantially the same circumstances and by the same procedure as a company under the Companies Code.



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### **Registrar.**

The Registrar has wide functions under the Act designed to assist societies and to protect the interests of members and other persons. Apart from functions incidental to matters referred to above, they include inspection of societies and the holding of inquiries and investigations into societies' affairs, with power to order production of books and documents and to examine on oath. She/he also has power to call special meetings of members in certain circumstances.

The Registrar is required to make an annual report to Parliament containing information and statistics as to the operation of societies.

Copies of all forms to be furnished to the Registrar are available on application to the Legal and Registry Division of the Ministry of Housing.



# Funding

Through its Co-operative Development Program the Ministry of Employment and Training provides technical and/or financial assistance for proposed, new or established co-operative business enterprises which:

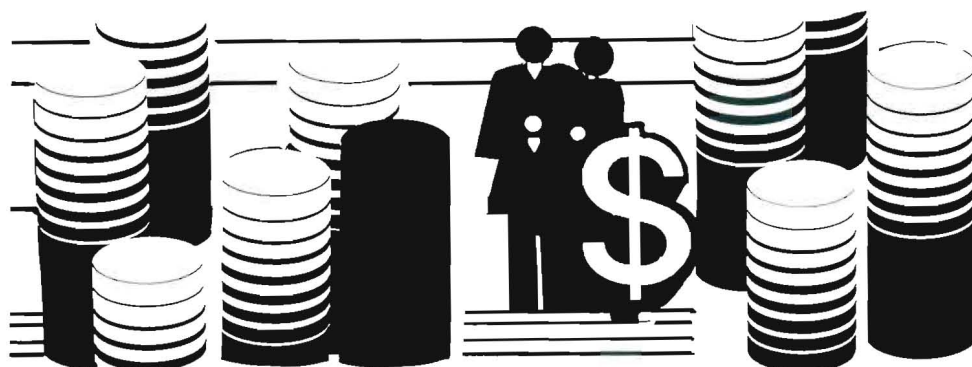
- (i) demonstrate actual and/or potential economic viability within a reasonable time period.
- (ii) apply co-operative principles in practice consistent with (i).
- (iii) demonstrate a commitment to the democratisation of workplaces consistent with (i).
- (iv) create and/or maintain jobs in supported co-operatives consistent with (i).

A contract is established between a funded co-operative and the Minister for Employment and Training. The contract is based on the Enterprise Plan.

The onus is on the co-operative to read, understand and accept the nature and content of the contract. In accepting funding, a co-operative is obligated to meet all the terms and conditions of the contract. It is unwise to sign a contract unless it is both understood and accepted. The accountability requirements are clearly specified.

The contract also specifically limits the Ministry's financial commitment to the terms and conditions. Non-compliance with the terms and conditions of the contract could result in cessation of funding and/or repayment and/or the imposition of additional funding conditions.

The Ministry's priorities for funding are directed to worker, conversion and unionised co-operatives. Consumer co-operatives which discourage worker ownership and control are not eligible for assistance. Credit, child care and housing co-operatives are not considered for funding.

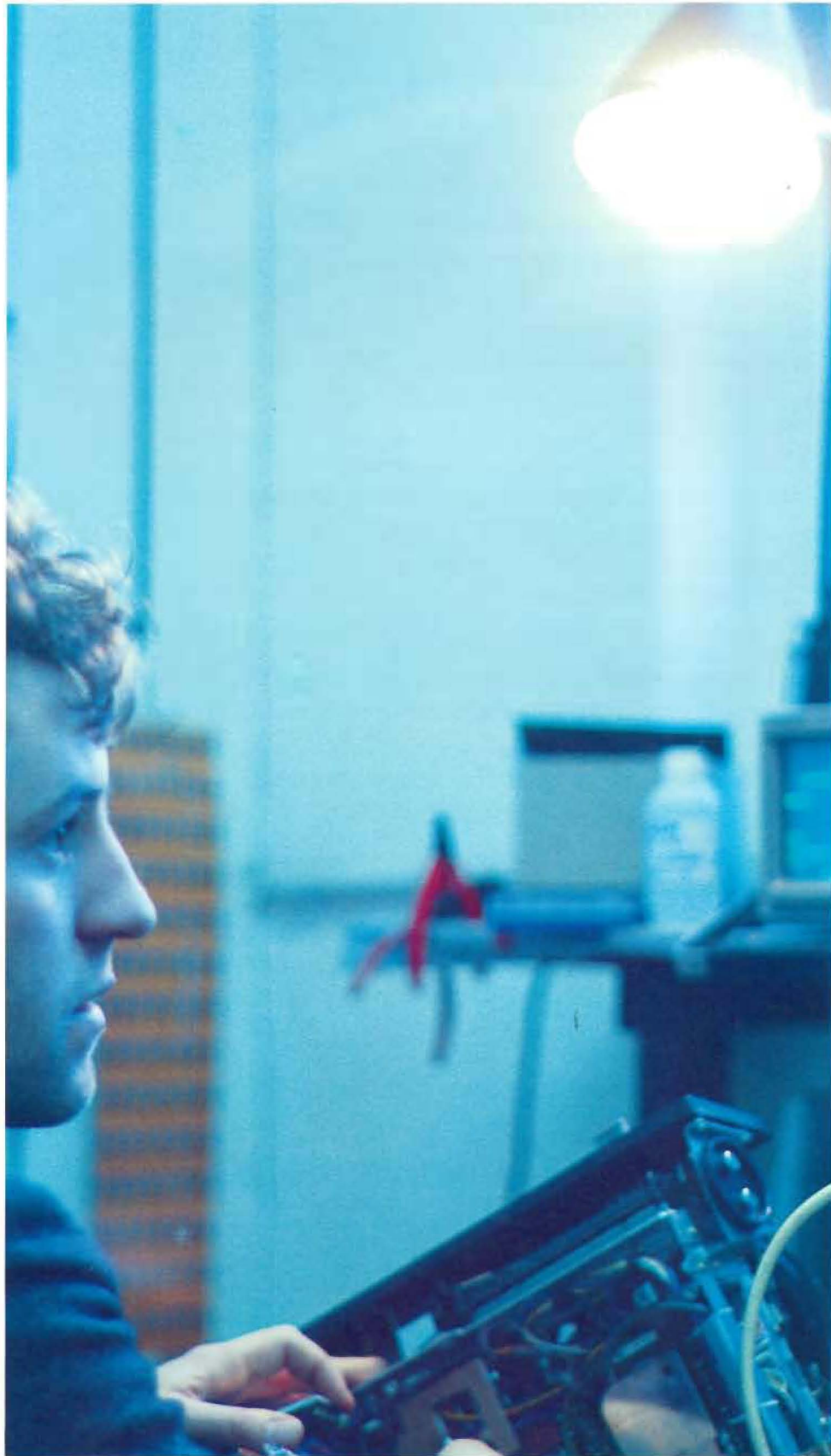


A minimally acceptable industrial democracy would include the following practices:

1. All workers are members of the co-operative.
2. Employment contracts are prepared for all workers based on award or industry wages and conditions whichever is the higher.
3. Workers are elected to the Board.
4. A fair and open appeals procedure exists.
5. All workers have attendance and speaking rights at Board meetings.
6. Agendas and minutes of Board meetings are circulated to all workers well in advance of meetings.
7. Workers participate in the selection of management.
8. All workers are provided with business information including monthly financial statements and have the background to understand and opportunities to meet and discuss them.
9. An individual and collective based education and training program is developed for all workers which develops technical, business and decision-making skills.
10. All workers participate in hiring and firing decisions.
11. A system of management accountability to workers exists.
12. Regular meetings of workers are organised during working hours on a weekly, fortnightly or monthly basis.
13. All workers are involved in the planning process including development of enterprise plans.







\*Open Channel

# Education and training programs

Two innovative co-operative courses are being developed in conjunction with Preston TAFE:

1. A Co-operative Intenders Course for individuals and groups interested in determining the pros and cons of establishing a co-operative business.
2. A Co-operative Enterprise Course during which groups receive formal education and training while undertaking feasibility studies and preparing enterprise plans.

Both courses are unique to Australia in pioneering education and training for co-operative business enterprises. Course content not only includes the practicalities of establishing and developing a business but also addresses co-operative philosophy and practice, industrial/economic democracy in the workplace, the history and functions of trade unions, occupational health and safety and industrial relations.

Information workshops are organised by the Ministry of Employment and Training as and when appropriate. There are two types of workshops – for start-up and conversion workshops.

The workshop program is complemented by a series of individual pamphlets on industrial democracy, industrial relations, occupational health and safety, trade unions, affirmative employment, conversion co-operatives, introducing worker co-operatives, questions about worker co-operatives, viability criteria and enterprise plans. These pamphlets are being prepared in conjunction with Holmesglen TAFE. Co-operative Case Studies are also available.

Specific issue, skill and language-based courses/workshops are developed as and when appropriate.

A Course Committee has been established to advise on the development of the courses.



W.R. Renovations



# Business counselling services

Both Melbourne and country-based co-operatives are able to utilise a pool of counsellors/consultants who have a diverse range of experiences, skills and interests.

Each co-operative under the Program is guaranteed 50 hours of counselling/consultancy work for each 12 months funding period. Additional hours are subject to negotiation and possibly a fee payment.

The Co-operative Support Services develop service contracts with each co-operative which specify the terms and conditions for the provision of the service.

Each Co-operative Support Service has a brochure on available services and how to use these services.

The onus is on each individual co-operative to appropriately utilise the services.

# Addresses you need to know

**Australian Taxation Department**, 350 Collins Street, Melbourne 3000. (03) 602 0241.

**Ministry of Employment and Training**, Nauru House, 80 Collins Street, Melbourne 3000. (03) 658 6444.

**Department of Labour and Industry**, 500 Bourke Street, Melbourne 3000. (03) 651 3991.

**Legal and Registry Division**, Ministry of Housing, Myer House, 250 Elizabeth Street, Melbourne 3000. (03) 699 1764, 699 1765.

**Trades Hall Council**, Rear 54 Victoria Street, Melbourne 3000. (03) 662 3511.

**Co-operative Federation of Victoria**, 225 Swanston Street, Melbourne 3000. (03) 663 1674.

For further information you can contact:

**The Co-operative Development Program, Ministry of Employment and Training**, Nauru House, 80 Collins Street, Melbourne 3000. (03) 658 6444.





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